

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY FISCAL COURT

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Harlan County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Harlan County, Kentucky. We have issued an adverse opinion on the aggregate discretely presented component units because a material component unit was omitted. In accordance with OMB Circular A-133 we have issued a qualified opinion on compliance requirements that are applicable to Harlan County's major federal program: Community Development Block Grant – Cumberland hope Community Project (CFDA #14.228)

Financial Condition:

The fiscal court had net assets of \$25,578,775 in its governmental activities as of June 30, 2009. The fiscal court had unrestricted net assets of \$7,221,090 in its governmental activities as of June 30, 2009. The business-type activities had net cash and cash equivalents of \$131,972. The fiscal court had total debt principal as of June 30, 2009 of \$18,326,451 with \$580,933 due within the next year.

Report Comments:

- 2009-01 The County Has A Lack Of Adequate Segregation Of Duties
- 2009-02 The County Should Require All Employees To Maintain Timesheets
- 2009-03 The County Should Pay Overtime At A Rate Of Time And One Half
- 2009-04 The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within Thirty Days
- 2009-05 The County Should Improve Purchase Order Procedures
- 2009-06 The County Should Strengthen Internal Controls Over Waste Removal Collections
- 2009-07 The County Should Perform Annual Physical Inventory, Reconcile To The Master Capital Asset Listing On Or Before June 30, And Implement Procedures For Disposal Of Equipment
- 2009-08 The County Did Not Provide An Accurate Financial Statement Resulting In A Material Prior Period Adjustment
- 2009-09 The Jailer Should Reconcile Receipts And Disbursements Monthly
- 2009-10 The Jailer's Office Lacks Adequate Segregation Of Duties
- 2009-11 The Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court
- 2009-12 The Industrial Development Authority Should Submit An Annual Report To Fiscal Court And Provide Auditors With All Required Records
- 2009-13 Harlan County Industrial Development Authority Related Party Transaction Should Be Referred To The Appropriate Authorities
- 2009-14 The Airport Board Lacks Adequate Segregation Of Duties
- 2009-15 Invoices Of The Airport Board Lack Evidence Of Proper Approval
- 2009-16 The Airport Board Should Comply With The Uniform System Of Accounts
- 2009-17 The Fiscal Court Did Not Monitor Subrecipients Resulting In Questioned Costs Of \$459,514

Deposits:

The primary government and component units' deposits as of June 30, 2009, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$87,248

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
HARLAN COUNTY OFFICIALS	4
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -	31
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – CASH BASIS	35
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS	39
NOTES TO FINANCIAL STATEMENTS	41
BUDGETARY COMPARISON SCHEDULES	61
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	66
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	69
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	72
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS	77
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	81
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	82
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	85
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	89
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	93

APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT
PROGRAMS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Harlan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Harlan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Harlan County Fiscal Court has not included the Harlan County Industrial Development Authority, a material discretely presented component unit, in the financial statements. The omission of this discretely presented component unit represents a departure from Governmental Accounting Standards Board Statement 14 as amended by 39: The Financial Reporting Entity. The amount by which this omission affects assets, liabilities, net assets, and revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the Harlan County Industrial Authority, a material discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of Harlan County, Kentucky as of June 30, 2009, or the changes in financial position, thereof, for the year then ended, in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky

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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan County, Kentucky's basic financial statements. The accompanying supplementary information combining fund financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2011 on our consideration of Harlan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2009-01 The County Has A Lack Of Adequate Segregation Of Duties
- 2009-02 The County Should Require All Employees To Maintain Timesheets
- 2009-03 The County Should Pay Overtime At A Rate Of Time And One Half
- 2009-04 The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within Thirty Days
- 2009-05 The County Should Improve Purchase Order Procedures
- 2009-06 The County Should Strengthen Internal Controls Over Waste Removal Collections
- 2009-07 The County Should Perform Annual Physical Inventory, Reconcile To The Master Capital Asset Listing On Or Before June 30, And Implement Procedures For Disposal Of Equipment
- 2009-08 The County Did Not Provide An Accurate Financial Statement Resulting In A Material Prior Period Adjustment
- 2009-09 The Jailer Should Reconcile Receipts And Disbursements Monthly
- 2009-10 The Jailer's Office Lacks Adequate Segregation Of Duties
- 2009-11 The Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court
- 2009-12 The Industrial Development Authority Should Submit An Annual Report To Fiscal Court And Provide Auditors With All Required Records
- 2009-13 Harlan County Industrial Development Authority Related Party Transaction Should Be Referred To The Appropriate Authorities
- 2009-14 The Airport Board Lacks Adequate Segregation Of Duties

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2009-15 Invoices Of The Airport Board Lack Evidence Of Proper Approval

2009-16 The Airport Board Should Comply With The Uniform System Of Accounts

2009-17 The Fiscal Court Did Not Monitor Subrecipients Resulting In Questioned Costs Of \$459,514

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

February 18, 2011

HARLAN COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Joseph A. Grieshop	County Judge/Executive
Paul Caudwell	Magistrate
Chad Brock	Magistrate
David Kennedy	Magistrate
Jim Roddy	Magistrate
Jimmy W. Roark	Magistrate

Other Elected Officials:

Fred Busroe	County Attorney
Curtis Stallard	Jailer
Wanda Clem	County Clerk
Paul Williams	Circuit Court Clerk
Marvin Lipford	Sheriff
Felicia Wooten	Property Valuation Administrator
Philip Bianchi	Coroner

Appointed Personnel:

Ryan Creech	County Treasurer
Carolyn Smith	Administrative Assistant
Alice Hensley	Accounts Payable
Margie Shope	Accounts Payable
Ollie McGregor	Payroll Clerk

HARLAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

HARLAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government			Component Unit -
	Governmental Activities	Business-Type Activities	Totals	Tucker Guthrie Airport Board
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 10,842,393	\$ 131,972	\$ 10,974,365	\$ 8,438
Notes Receivable	285,268		285,268	
Total Current Assets	11,127,661	131,972	11,259,633	8,438
Noncurrent Assets:				
Notes Receivable	198,814		198,814	
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	685,320		685,320	
Land and Land Improvements	1,567,423		1,567,423	458,524
Buildings	18,224,852		18,224,852	391,700
Land Improvements				226,026
Equipment	230,989		230,989	
Vehicles and Equipment	537,461	65,791	603,252	
Infrastructure	11,332,706		11,332,706	
Total Noncurrent Assets	32,777,565	65,791	32,843,356	1,076,250
Total Assets	43,905,226	197,763	44,102,989	1,084,688
LIABILITIES				
Current Liabilities:				
General Obligation Bonds	170,000		170,000	
Revenue Bonds	325,000		325,000	
Financing Obligations	85,933		85,933	
Total Current Liabilities	580,933		580,933	
Noncurrent Liabilities:				
General Obligation Bonds	7,710,000		7,710,000	
Revenue Bonds	7,045,000		7,045,000	
Financing Obligations	2,990,518		2,990,518	
Total Noncurrent Liabilities	17,745,518		17,745,518	
Total Liabilities	18,326,451		18,326,451	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	17,067,300	65,791	17,133,091	1,076,250
Restricted For:				
Debt Service	1,290,385		1,290,385	
Unrestricted	7,221,090	131,972	7,353,062	8,438
Total Net Assets	\$ 25,578,775	\$ 197,763	\$ 25,776,538	\$ 1,084,688

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

HARLAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,456,509	\$ 195,113	\$ 2,667,062	\$
Protection to Persons and Property	2,391,896	980,667	686,644	48,495
General Health and Sanitation	2,736,874	426,459	767,651	1,067,503
Social Services	148,659			128,699
Recreation and Culture	544,289	61,211	1,033,938	71,604
Roads	1,806,681		2,139,226	295,930
Airports	228,678			195,762
Debt Service	896,214			83,199
Capital Projects	371,168			369,306
Total Governmental Activities	<u>13,580,968</u>	<u>1,663,450</u>	<u>7,294,521</u>	<u>2,260,498</u>
Business-type Activities:				
Jail Canteen	797,319	820,199		
Total Business-type Activities	<u>797,319</u>	<u>820,199</u>		
Total Primary Government	<u>\$ 14,378,287</u>	<u>\$ 2,483,649</u>	<u>\$ 7,294,521</u>	<u>\$ 2,260,498</u>
Component Unit:				
Tucker Guthrie Airport Board	<u>\$ 123,959</u>	<u>\$ 17,861</u>	<u>\$ 79,666</u>	<u>\$ 0</u>

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

Excess Fees

Miscellaneous Revenues

Unrestricted Investment Earning

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit -
Governmental Activities	Business-Type Activities	Totals	Tucker Guthrie Airport Board
\$ (1,594,334)	\$	\$ (1,594,334)	\$
(676,090)		(676,090)	
(475,261)		(475,261)	
(19,960)		(19,960)	
622,464		622,464	
628,475		628,475	
(32,916)		(32,916)	
(813,015)		(813,015)	
(1,862)		(1,862)	
(2,362,499)		(2,362,499)	
	22,880	22,880	
	22,880	22,880	
(2,362,499)	22,880	(2,339,619)	
			(26,432)
1,571,799		1,571,799	
730,909		730,909	
250,605		250,605	
1,375,706		1,375,706	
42,000		42,000	
286,529		286,529	
108,009	110	108,119	
4,365,557	110	4,365,667	
2,003,058	22,990	2,026,048	(26,432)
23,575,717	174,773	23,750,490	1,111,120
<u>\$ 25,578,775</u>	<u>\$ 197,763</u>	<u>\$ 25,776,538</u>	<u>\$ 1,084,688</u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

HARLAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund
ASSETS					
Cash and Cash Equivalents	\$ 4,467,495	\$ 1,375,306	\$	\$ 2,368,344	\$ 634,288
Total Assets	<u>4,467,495</u>	<u>1,375,306</u>		<u>2,368,344</u>	<u>634,288</u>
FUND BALANCES					
Reserved for:					
Encumbrances	12,127	22,574	3,235	7,543	37,355
Unreserved:					
General Fund	4,455,368				
Special Revenue Funds		1,352,732	(3,235)	2,360,801	596,933
Debt Service Funds					
Total Fund Balances	<u>\$ 4,467,495</u>	<u>\$ 1,375,306</u>	<u>\$ 0</u>	<u>\$ 2,368,344</u>	<u>\$ 634,288</u>

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Sinking Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 1,283,804</u>	<u>\$ 713,156</u>	<u>\$ 10,842,393</u>
<u>1,283,804</u>	<u>713,156</u>	<u>10,842,393</u>
	2,742	85,576
		4,455,368
	703,833	5,011,064
<u>1,283,804</u>	<u>6,581</u>	<u>1,290,385</u>
<u>\$ 1,283,804</u>	<u>\$ 713,156</u>	<u>\$ 10,842,393</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 10,842,393
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Notes Receivable Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds	484,082
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	71,286,782
Accumulated Depreciation	(38,708,031)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
General Obligation Bonds	(7,880,000)
Revenue Bonds	(7,370,000)
Financing Obligations	<u>(3,076,451)</u>
Net Assets Of Governmental Activities	<u>\$ 25,578,775</u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 3,735,493	\$	\$	\$
In Lieu Tax Payments	36	3,238		
Excess Fees	42,000			
Licenses and Permits	195,113			
Intergovernmental	1,920,389	1,719,080	1,117,108	3,091,092
Charges for Services	455,512		45,366	
Miscellaneous	80,222	43,660	129,298	
Interest	51,599	12,639		28,045
Total Revenues	<u>6,480,364</u>	<u>1,778,617</u>	<u>1,291,772</u>	<u>3,119,137</u>
EXPENDITURES				
Current:				
General Government	2,544,564			39,765
Protection to Persons and Property	130,947		1,529,857	51,605
General Health and Sanitation	1,373,946			289,863
Social Services	19,178			
Recreation and Culture	19,757			419,918
Roads		1,568,926		
Airports	228,678			
Debt Service	108,851	124,335		
Capital Projects	1,862			
Administration	1,142,724	293,695	398,750	143,713
Total Expenditures	<u>5,570,507</u>	<u>1,986,956</u>	<u>1,928,607</u>	<u>944,864</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>909,857</u>	<u>(208,339)</u>	<u>(636,835)</u>	<u>2,174,273</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		117,711		
Transfers From Other Funds		722,441	636,835	
Transfers To Other Funds	(454,642)			(1,904,634)
Total Other Financing Sources (Uses)	<u>(454,642)</u>	<u>840,152</u>	<u>636,835</u>	<u>(1,904,634)</u>
Net Change in Fund Balances	455,215	631,813		269,639
Fund Balances - Beginning (Restated)	<u>4,012,280</u>	<u>743,493</u>		<u>2,098,705</u>
Fund Balances - Ending	<u><u>\$ 4,467,495</u></u>	<u><u>\$ 1,375,306</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 2,368,344</u></u>

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Local Government Economic Development Fund	Sinking Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 193,526	\$ 3,929,019
			3,274
			42,000
			195,113
1,372,860		1,332,026	10,552,555
			500,878
			253,180
	12,042	3,682	108,007
<u>1,372,860</u>	<u>12,042</u>	<u>1,529,234</u>	<u>15,584,026</u>
			2,584,329
127,064		358,304	2,197,777
592,988		474,514	2,731,311
128,699			147,877
71,604			511,279
			1,568,926
			228,678
242,813	450,919	666,329	1,593,247
369,306			371,168
		10,362	1,989,244
<u>1,532,474</u>	<u>450,919</u>	<u>1,509,509</u>	<u>13,923,836</u>
<u>(159,614)</u>	<u>(438,877)</u>	<u>19,725</u>	<u>1,660,190</u>
			117,711
	1,000,000		2,359,276
			(2,359,276)
	<u>1,000,000</u>		<u>117,711</u>
(159,614)	561,123	19,725	1,777,901
793,902	722,681	693,431	9,064,492
<u>\$ 634,288</u>	<u>\$ 1,283,804</u>	<u>\$ 713,156</u>	<u>\$ 10,842,393</u>

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

HARLAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ 1,777,901

Amounts Reported For Governmental Activities In The Statement of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	652,608
Depreciation Expense	(1,006,773)

Changes In Receivable Can Occur As A Result Of Payments On Receivables (Decreases) Or Granting A Receivable To An Entity (Increase). This Amount Represents The Difference 21,094

The Issuance of Long-Term Debt (e.g. bonds, financing obligations) Provides Current Financial Resources To Governmental Funds, While Repayment of Principal On Long-Term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.

Financing Obligation Proceeds	(117,711)
General Obligation Bond Payments	160,000
Revenue Bond Payments	315,000
Financing Obligations Payments	<u>200,939</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 2,003,058</u></u>
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HARLAN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

HARLAN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 131,972
Total Current Assets	<u>131,972</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	85,074
Less Accumulated Depreciation	<u>(19,283)</u>
Total Noncurrent Assets	<u>65,791</u>
Total Assets	<u>197,763</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	65,791
Unrestricted	<u>131,972</u>
Total Net Assets	<u>\$ 197,763</u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

HARLAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 292,707
Total Operating Revenues	<u>292,707</u>
Operating Expenses	
Cost of Sales	190,427
Educational and Recreational	56,384
Depreciation	7,656
Miscellaneous	13,503
Total Operating Expenses	<u>267,970</u>
Operating Income	<u>24,737</u>
Nonoperating Revenues (Expenses)	
Interest Income	110
Inmate Fees	(529,349)
Inmate Deposits	<u>527,492</u>
Total Nonoperating Revenues (Expenses)	<u>(1,747)</u>
Change In Net Assets	22,990
Total Net Assets - Beginning (Restated)	<u>174,773</u>
Total Net Assets - Ending	<u><u>\$ 197,763</u></u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – CASH BASIS

For The Year Ended June 30, 2009

HARLAN COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipt From Customers for Sales	\$ 292,707
Cash Payments For Goods And Services	<u>(260,314)</u>
Net Cash Provided By Operating Activities	<u>32,393</u>
Cash Flows From Noncapital Financing Activities	
Inmate Receipts	527,492
Inmate Fees Paid	<u>(529,349)</u>
Net Cash Provided By Noncapital Financing Activities	<u>(1,857)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>110</u>
Net Cash Provided By Investing Activities	<u>110</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,646
Cash and Cash Equivalents - July 1, 2008	<u>101,326</u>
Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 131,972</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 24,737
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>7,656</u>
Net Cash Provided By Operating Activities	<u><u>\$ 32,393</u></u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2009

HARLAN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2009

	<u>Agency Funds</u>
	<u>Total</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 258,755</u>
Total Assets	<u>258,755</u>
Liabilities	
Amounts Held In Custody For Others	<u>258,755</u>
Total Liabilities	<u>258,755</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	41
NOTE 2.	DEPOSITS AND INVESTMENTS.....	48
NOTE 3.	RECEIVABLES.....	48
NOTE 4.	CAPITAL ASSETS.....	49
NOTE 5.	LONG-TERM DEBT	51
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	55
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	55
NOTE 8.	INSURANCE	56
NOTE 9.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	56
NOTE 10.	LANDFILL ESCROW ACCOUNT.....	56
NOTE 11.	SUBSEQUENT EVENTS.....	56
NOTE 12.	PRIOR PERIOD ADJUSTMENTS	56
NOTE 13.	RELATED PARTY TRANSACTIONS.....	57

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The reporting entity presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Harlan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Harlan County Justice Center Public Properties Corporation

Harlan County Justice Center Public Properties Corporation is a legally separate entity established to provide for the debt service associated with the construction of the Judicial Center Building. Harlan County Justice Center Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Harlan County Justice Center Public Properties Corporation as a component unit, and its financial activity is blended with that of the fiscal court.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

Tucker Guthrie Airport Board

The Harlan County Fiscal Court established the Tucker Guthrie Airport Board. The board is responsible for the building, expansion, and maintenance of an airport within the county. The fiscal court's objective is that having an airport within the county will promote industrial development to the county. Therefore, management must include the board as a component unit, and the board's financial activity will be discretely presented with that of the Fiscal Court.

Audit financial statements for the Tucker Guthrie Airport Board, a discretely presented component unit, may be requested by contacting the Tucker Guthrie Airport Board (606-573-7499) at P.O. Box 957, Harlan, Kentucky 40831.

Harlan County Industrial Development Authority

Harlan County Fiscal Court (Fiscal Court) established the Harlan County Industrial Development Authority (IDA) to promote industrial growth in Harlan County. Harlan County Fiscal Court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has assumed debt owed by the Authority and is making the payments upon the debt. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. However, this component unit has been omitted from the County's financial statements.

C. Harlan County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Harlan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Harlan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale 90 days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government (DLG) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary source of this fund is coal and severance tax grants from the state. These funds are to be spent on priority expenditure categories as specified by statute. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development (LGED) Fund - The primary source of this fund through development grant money in which the expenditures are legally restricted for specific purposes.

Sinking Fund – The purpose of this fund is to account for debt service requirements of general obligation bonds and some financing obligations of the fiscal court

The primary government also has the following non-major funds: Federal Grants Fund, Emergency 911 Fund, and Harlan County Justice Center Public Properties Corporation Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Local Government Economic Development Fund, and Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Funds:

Sinking Fund and Harlan County Justice Center Public Properties Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of long-term debt principal and interest.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

Agency Funds

The primary government reports the following fiduciary funds:

The Louellen Escrow Fund, Cloverfork Escrow Fund, and the Flood Control Fund are funds held by the Harlan County Fiscal Court for the Army Corps of Engineers for flood projects located in Harlan County.

E. Deposits and Investments

The county and component units' cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-75
Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 30,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the Harlan County Justice Center Public Properties Corporation Fund, a blended component unit. This corporation accounts for the debt associated with financing the construction of the Judicial Center and Detention Center. The State Local Finance Officer does not require the fiscal court budget these funds.

A formal budget was not adopted for the Tucker Guthrie Airport Board because this entity is a component unit of the fiscal court and the financial activity is not required to be included in the budget or financial statements of the primary government. The fiscal court established this entity as a component unit, which is operated independently of the Harlan County Fiscal Court. This entity is included as discretely presented component unit on the county’s financial statements.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

J. Related Organizations, Joint Ventures, and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Harlan County Fiscal Court: Harlan County Public Library, Green Hills Water District, Black Mountain Water District, Harlan Municipal Water District, Cawood Water District, City of Evarts Water District, City of Cumberland Water District, City of Benham Water District, Harlan County Health Department, and Harlan County Extension District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Harlan County Fiscal Court and the City of Harlan: Planning and Zoning Commission.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits and Investments

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Fiscal Court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Harlan County Fiscal Court did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Fiscal Court's deposits may not be returned. The primary government and component units do not have a deposit policy for custodial credit risk but rather follow the requirements of KRS 41.240(4). On June 30, 2009, the bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$87,248

Note 3. Receivables

On May 2, 2005, Harlan County Fiscal Court agreed to make payments on a business building on behalf of the Industrial Development Authority. Originally, there was no signed agreement between the two entities. On May 22, 2009, the Industrial Development Authority signed an agreement retroactive back to May 2, 2005. The agreement documents the original intent of the relationship between the Harlan County Fiscal Court and the Industrial Development Authority. The Industrial Development Authority agreed to reimburse the Harlan County Fiscal Court for any payments made on their behalf including both principal and interest.

The Industrial Development Authority has \$219,274 in notes due to the county for future principal payments on the loan. The Industrial Development Authority also has past payments that were made on their behalf that includes principal and interest of \$164,808. In addition, there remains a \$100,000 note due from when the Industrial Development Authority was formed. As of June 30, 2009, the Industrial Development Authority balance due to the Harlan County Fiscal Court is \$484,082. The receivables are as follows:

Note Receivable	<u>\$ 484,082</u>
-----------------	-------------------

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,567,423	\$	\$	\$ 1,567,423
Construction In Progress	514,187	171,133		685,320
Total Capital Assets Not Being Depreciated	2,081,610	171,133		2,252,743
Capital Assets, Being Depreciated:				
Buildings	21,448,309			21,448,309
Equipment	296,764	170,556		467,320
Vehicles and Equipment	1,702,340	164,416		1,866,756
Infrastructure	45,105,151	146,503		45,251,654
Total Capital Assets Being Depreciated	68,552,564	481,475		69,034,039
Less Accumulated Depreciation For:				
Buildings	(2,848,078)	(375,379)		(3,223,457)
Other Equipment	(152,213)	(84,118)		(236,331)
Vehicles and Equipment	(1,191,448)	(137,847)		(1,329,295)
Infrastructure	(33,509,519)	(409,429)		(33,918,948)
Total Accumulated Depreciation	(37,701,258)	(1,006,773)		(38,708,031)
Total Capital Assets, Being Depreciated, Net	30,851,306	(525,298)		30,326,008
Governmental Activities Capital Assets, Net	<u>\$ 32,932,916</u>	<u>\$ (354,165)</u>	<u>\$ 0</u>	<u>\$ 32,578,751</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 44,116	\$	\$	\$ 44,116
Vehicles	40,958			40,958
Total Capital Assets Being Depreciated	85,074			85,074
Less Accumulated Depreciation For:				
Equipment	(7,941)	(3,970)		(11,911)
Vehicles	(3,686)	(3,686)		(7,372)
Total Accumulated Depreciation	(11,627)	(7,656)		(19,283)
Total Capital Assets, Being Depreciated, Net	73,447	(7,656)		65,791
Business-Type Activities Capital Assets, Net	<u>\$ 73,447</u>	<u>\$ (7,656)</u>	<u>\$ 0</u>	<u>\$ 65,791</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 262,630
Protection to Persons and Property	200,924
Social Services	782
General Health and Sanitation	5,563
Recreation and Culture	33,010
Roads, Including Depreciation of General Infrastructure Assets	<u>503,864</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,006,773</u>

Business-Type Activities

Jail Canteen	<u>\$ 7,656</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 7,656</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2009 was as follows:

	Tucker Guthrie Airport Board			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 458,524	\$	\$	\$ 458,524
Total Capital Assets Not Being Depreciated	<u>458,524</u>			<u>458,524</u>
Capital Assets, Being Depreciated:				
Buildings	416,702			416,702
Land Improvements	<u>243,562</u>			<u>243,562</u>
Total Capital Assets Being Depreciated	660,264			660,264
Less Accumulated Depreciation For:				
Buildings	(12,501)	(12,501)		(25,002)
Land Improvements	<u>(8,768)</u>	<u>(8,768)</u>		<u>(17,536)</u>
Total Accumulated Depreciation	<u>(21,269)</u>	<u>(21,269)</u>		<u>(42,538)</u>
Total Capital Assets, Being Depreciated, Net	<u>638,995</u>	<u>(21,269)</u>		<u>617,726</u>
Capital Assets, Net	<u>\$ 1,097,519</u>	<u>\$ (21,269)</u>	<u>\$ 0</u>	<u>\$ 1,076,250</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the discretely presented major component units as follows:

Tucker Guthrie Airport Board	\$ 21,269
Total Depreciation Expense - Business Activities	<u>\$ 21,269</u>

Note 5. Long-term Debt

A. General Obligation Improvement Bonds Series 2004

On September 8, 2004, the county issued \$6,000,000 of General Obligation Bonds. These bonds were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning March 1, 2006. Principal payments are due March 1 of each year until September 1, 2034. As of June 30, 2009 the principal amount outstanding was \$5,650,000.

Fiscal Year Ended June 30, 2009	Governmental Activities	
	Principal	Interest
2010	\$ 125,000	\$ 245,958
2011	130,000	241,970
2012	135,000	237,495
2013	140,000	232,683
2014	145,000	227,695
2015-2019	800,000	1,051,969
2020-2024	980,000	870,609
2025-2029	1,235,000	621,036
2030-2034	1,590,000	287,520
2035	<u>370,000</u>	<u>8,880</u>
Totals	<u>\$ 5,650,000</u>	<u>\$ 4,025,815</u>

B. General Obligation Improvement Bonds Phase II

On April 27, 2005, the Harlan County Detention Center Public Properties Corporation and the county issued bonds in the amount of \$2,350,000 in order to finish constructing the Harlan County Detention Center. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning September 1, 2006. Principal payments are due on March 1 of each year until September 1, 2035. As of June 30, 2009, the principal amount outstanding was \$2,230,000.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

A. General Obligation Improvement Bonds Phase II (Continued)

Fiscal Year Ended June 30, 2009	Governmental Activities	
	Principal	Interest
2010	\$ 45,000	\$ 98,168
2011	45,000	96,705
2012	50,000	95,043
2013	50,000	93,293
2014	50,000	91,468
2015-2019	295,000	424,968
2020-2024	375,000	355,720
2025-2029	465,000	262,263
2030-2034	580,000	143,163
2035-2036	275,000	13,875
Totals	<u>\$ 2,230,000</u>	<u>\$ 1,674,666</u>

C. First Mortgage Revenue Bonds Series 2002

On June 26, 2002, the Harlan County Justice Center Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining rental space for the AOC at the Justice Center. On July 16, 2002, the Harlan County Courthouse and Public Properties Corporation issued First Mortgage Revenue Bonds in the amount of \$9,120,000 in order to construct the Harlan County Justice Center.

The Harlan County Justice Center Public Properties Corporation designated the County to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The Harlan County Courthouse and Public Properties Corporation expects annual rentals from AOC for use of the Justice Center to be in the full amount of annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowance payments as provided in the lease. The lease agreement is renewable each year. The Harlan County Justice Center Public Properties Corporation is dependent upon the of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so. As of June 30, 2009, the principal amount outstanding was \$7,370,000.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

C. First Mortgage Revenue Bonds Series 2002 (Continued)

Fiscal Year Ended June 30, 2009	Governmental Activities	
	Principal	Interest
2010	\$ 325,000	\$ 341,696
2011	340,000	329,102
2012	350,000	315,502
2013	365,000	300,628
2014	385,000	285,115
2015-2019	2,190,000	1,154,983
2020-2024	2,775,000	589,450
2025	640,000	32,000
Totals	<u>\$ 7,370,000</u>	<u>\$ 3,348,476</u>

D. Financing Obligation - Industrial Development Authority Building

On May 2, 2005, the Harlan Fiscal Court entered into an agreement to make payments on behalf of the Industrial Development Authority (IDA). Principal and interest payments are monthly until June 7, 2017. The Industrial Development Authority is responsible for repaying the amount paid on their behalf. The principal balance as June 30, 2009 is \$219,274. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

Fiscal Year Ended June 30, 2009	Governmental Activities	
	Principal	Interest
2010	\$ 20,460	\$ 16,548
2011	22,131	14,877
2012	23,903	13,105
2013	25,891	11,117
2014	28,006	9,002
2015-2017	98,883	12,527
Totals	<u>\$ 219,274</u>	<u>\$ 77,176</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

E. Financing Obligation - Sewer Lines

On September 25, 2007, the Harlan County Fiscal Court entered into a financing agreement in the amount of \$2,860,000 for the construction of sewer lines. Principal payments are due annually on September 20 and interest payments are due semiannually on March 20 and September 20. The obligation is scheduled to be paid off in September 2037. The principal balance as of June 30, 2009, is 2,815,000. Debt Service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

Fiscal Year Ended June 30, 2009	Governmental Activities	
	Principal	Interest
2010	\$ 45,000	\$ 138,320
2011	50,000	136,360
2012	50,000	134,273
2013	55,000	132,040
2014	55,000	129,675
2015-2019	320,000	607,980
2020-2024	405,000	523,554
2025-2029	510,000	410,714
2030-2034	660,000	262,060
2035-2038	665,000	75,434
Totals	<u>\$ 2,815,000</u>	<u>\$ 2,550,410</u>

F. Financing Obligation - Sheriff Vehicles

In December 2007, the Harlan County Fiscal Court entered into a 4-year financing obligation with Leasing One Corporation for the purchase of four police cruisers. Principal and interest payments are due annually in December. The principal balance as of June 30, 2009 is \$42,177. Debt service requirements for the fiscal years ending June 30, 2009 and thereafter are as follows:

Fiscal Year Ended June 30, 2009	Governmental Activities	
	Principal	Interest
2010	\$ 20,473	\$ 2,535
2011	21,704	1,304
Totals	<u>\$ 42,177</u>	<u>\$ 3,839</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long Term Debt (Continued)

G. Financing Obligation – Loader

On November 1, 2008, the County entered into an agreement with John Deere Credit in the amount of \$117,711, at an interest rate of 4.75% for the purchase of a loader. The lease term is 61 months, concluding on December 1, 2013. The County paid the lease off on February 1, 2009 in full. The principal balance as of June 30, 2009 was \$0.

H. Long-term activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 8,040,000	\$	\$ 160,000	\$ 7,880,000	\$ 170,000
Revenue Bonds	7,685,000		315,000	7,370,000	325,000
Financing Obligations	<u>3,159,679</u>	<u>117,711</u>	<u>200,939</u>	<u>3,076,451</u>	<u>85,933</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 18,884,679</u>	<u>\$ 117,711</u>	<u>\$ 675,939</u>	<u>\$18,326,451</u>	<u>\$ 580,933</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$166,877 in interest on financing obligations, \$351,509 in interest on revenue bonds, and \$348,930 in interest on general obligation bonds.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2009, Harlan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure's historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

Note 10. Landfill Escrow Account

This account was the result of a settlement reached between the State of Kentucky and Harlan County Fiscal Court to cover the costs of cleaning up violations associated with a landfill operated by the county. The money in this account was used for the purposes of cleaning up the landfill. Money was deposited and the State withdrew money as needed. As of June 30, 2009 the landfill is closed and the remaining balance in the account is \$43,035.

Note 11. Subsequent Events

During October 2010, the Harlan County Fiscal Court obtained a lease from KACO in the amount of \$5,000,000 for the construction of sewer lines.

Note 12. Prior Period Adjustments

A. Governmental Activities

The beginning fund balance of the General Fund was increased by \$539,557. The beginning capital asset balance for the governmental activities has been increased \$432,760. Therefore, beginning net assets of governmental activities were increased in total by \$972,318, due to prior year errors.

B. Business-Type Activities

The beginning capital asset balance for the business-type activities has been increased \$21,120, due to a prior year error.

C. Tucker Guthrie Airport Board

The beginning net asset balance for the Tucker Guthrie Airport Board has been increased \$4,691, due to prior year error.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 13. Related Party Transactions

A. On June 24, 2005, the Harlan County Industrial Development Authority (IDA) entered into an agreement with Speciality Products Distributors, LLC for property/building located on Industrial Park Road in Harlan, KY. The owner and sole member of Speciality Products Distributors is the Chairman of the Harlan County IDA, who was appointed by the Harlan County Judge Executive. The agreement is in the amount of \$325,000 at 0% interest, where the leasee (Speciality Products Distributors), will have the option to purchase the property at the end of the contract for \$1. The terms of the agreement for the first five years shall be \$1,300 per month. The lease payments for the second five years shall be \$1,400 per month. The third five year term shall be \$1,500 per month and at the end of the third term, the lease payments will remain at \$1,500 per month until the total sum of \$325,000 is paid in full. Leasee agrees to maintain sufficient liability insurance on said building and property.

B. The Harlan County Industrial Development Authority did business of \$2,888 during fiscal year 2009 with LP Energy Inc, which is owned by the Chairman of the Industrial Development Authority.

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HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,351,200	\$ 2,783,582	\$ 3,735,493	\$ 951,911
In Lieu Tax Payments	30	30	36	6
Excess Fees	20,000	20,000	42,000	22,000
Licenses and Permits	140,000	140,000	195,113	55,113
Intergovernmental Revenue	1,499,600	1,782,958	1,920,389	137,431
Charges for Services	32,000	632,870	455,512	(177,358)
Miscellaneous	40,000	59,417	80,222	20,805
Interest	15,000	33,203	51,599	18,396
Total Revenues	4,097,830	5,452,060	6,480,364	1,028,304
EXPENDITURES				
General Government	2,446,846	2,766,105	2,544,564	221,541
Protection to Persons and Property	43,600	141,641	130,947	10,694
General Health and Sanitation	1,193,347	1,784,303	1,373,946	410,357
Social Services	30,000	50,605	19,178	31,427
Recreation and Culture		19,800	19,757	43
Airports	200,000	302,938	228,678	74,260
Debt Service	110,400	445,400	108,851	336,549
Capital Projects	300,000	300,000	1,862	298,138
Administration	1,379,250	1,363,881	1,142,724	221,157
Total Expenditures	5,703,443	7,174,673	5,570,507	1,604,166
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,605,613)	(1,722,613)	909,857	2,632,470
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	1,000,000	1,000,000		(1,000,000)
Transfers To Other Funds	(433,232)	(744,082)	(454,642)	289,440
Total Other Financing Sources (Uses)	566,768	255,918	(454,642)	(710,560)
Net Changes in Fund Balance	(1,038,845)	(1,466,695)	455,215	1,921,910
Fund Balance - Beginning (Restated)	1,038,845	1,466,695	4,012,280	2,545,585
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,467,495	\$ 4,467,495

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
In Lieu Tax Payments	\$ 1,600	\$ 1,600	\$ 3,238	\$ 1,638
Intergovernmental Revenue	1,380,564	1,676,494	1,719,080	42,586
Miscellaneous			43,660	43,660
Interest	5,000	6,019	12,639	6,620
Total Revenues	1,387,164	1,684,113	1,778,617	94,504
EXPENDITURES				
Roads	1,485,741	1,928,426	1,568,926	359,500
Debt Service		6,625	6,624	1
Administration	473,000	503,080	293,695	209,385
Total Expenditures	1,958,741	2,438,131	1,869,245	568,886
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(571,577)	(754,018)	(90,628)	663,390
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	540,000	722,441	722,441	
Total Other Financing Sources (Uses)	540,000	722,441	722,441	
Net Changes in Fund Balance	(31,577)	(31,577)	631,813	663,390
Fund Balance - Beginning	31,577	31,577	743,493	711,916
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,375,306	\$ 1,375,306

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 996,200	\$ 1,007,708	\$ 1,117,108	\$ 109,400
Charges for Services	23,500	38,703	45,366	6,663
Miscellaneous	57,400	105,378	129,298	23,920
Total Revenues	1,077,100	1,151,789	1,291,772	139,983
EXPENDITURES				
Protection to Persons and Property	1,493,595	1,616,022	1,529,857	86,165
Administration	605,800	558,062	398,750	159,312
Total Expenditures	2,099,395	2,174,084	1,928,607	245,477
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,022,295)	(1,022,295)	(636,835)	385,460
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,022,295	1,022,295	636,835	(385,460)
Transfers To Other Funds				
Total Other Financing Sources (Uses)	1,022,295	1,022,295	636,835	(385,460)
Net Changes in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,300,000	\$ 2,582,441	\$ 3,091,092	\$ 508,651
Interest	15,000	15,000	28,045	13,045
Total Revenues	2,315,000	2,597,441	3,119,137	521,696
EXPENDITURES				
General Government			39,765	(39,765)
Protection to Persons and Property	50,000	60,000	51,605	8,395
General Health and Sanitation	281,197	297,197	289,863	7,334
Recreation and Culture	402,000	426,000	419,918	6,082
Administration	308,600	358,600	143,713	214,887
Total Expenditures	1,041,797	1,141,797	944,864	196,933
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,273,203	1,455,644	2,174,273	718,629
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,818,213)	(2,000,654)	(1,904,634)	96,020
Total Other Financing Sources (Uses)	(1,818,213)	(2,000,654)	(1,904,634)	96,020
Net Changes in Fund Balances	(545,010)	(545,010)	269,639	814,649
Fund Balances - Beginning	545,010	545,010	2,098,705	1,553,695
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,368,344	\$ 2,368,344

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u>	<u>Final Budget</u>
			<u>(Budgetary</u>	<u>Positive</u>
			<u>Basis)</u>	<u>(Negative)</u>
REVENUES				
Intergovernmental Revenue	\$ 4,100,000	\$ 4,100,000	\$ 1,372,860	\$ (2,727,140)
Total Revenues	4,100,000	4,100,000	1,372,860	(2,727,140)
EXPENDITURES				
Protection to Persons and Property	150,000	150,000	127,064	22,936
General Health and Sanitation	3,000,000	2,726,792	592,988	2,133,804
Social Services	200,000	223,208	128,699	94,509
Recreation and Culture	250,000	250,000	71,604	178,396
Debt Service		250,000	242,813	7,187
Capital Projects	515,000	515,000	369,306	145,694
Total Expenditures	4,115,000	4,115,000	1,532,474	2,582,526
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	(15,000)	(15,000)	(159,614)	(144,614)
Net Changes in Fund Balances	(15,000)	(15,000)	(159,614)	(144,614)
Fund Balances - Beginning	15,000	15,000	793,902	778,902
Fund Balances - Ending	\$ 0	\$ 0	\$ 634,288	\$ 634,288

HARLAN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the Road Fund

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the Road Fund in debt service by \$117,711 due to the payoff of financing obligations. Other financing sources and (uses) is different due to the borrowing of finance obligations for the purchase of a loader.

**HARLAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

HARLAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Federal Grant Fund	Emergency 911 Fund	Justice Center Public Properties Corporation Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 115,428	\$ 591,147	\$ 6,581	\$ 713,156
Total Assets	<u>115,428</u>	<u>591,147</u>	<u>6,581</u>	<u>713,156</u>
FUND BALANCES				
Reserved for:				
Encumbrances		2,742		2,742
Unreserved:				
Special Revenue Funds	115,428	588,405		703,833
Debt Service Fund			6,581	6,581
Total Fund Balances	<u>115,428</u>	<u>591,147</u>	<u>6,581</u>	<u>713,156</u>
Total Liabilities and Fund Balances	<u>\$ 115,428</u>	<u>\$ 591,147</u>	<u>\$ 6,581</u>	<u>\$ 713,156</u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

HARLAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Federal Grant Fund	Emergency 911 Fund
REVENUES		
Taxes	\$	\$ 193,526
Intergovernmental	474,515	189,182
Interest	521	3,058
Total Revenues	<u>475,036</u>	<u>385,766</u>
EXPENDITURES		
Protection to Persons and Property		358,304
General Health and Sanitation	474,514	
Debt Service		
Administration		8,325
Total Expenditures	<u>474,514</u>	<u>366,629</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>522</u>	<u>19,137</u>
Net Change in Fund Balances	522	19,137
Fund Balances - Beginning (Restated)	114,906	572,010
Fund Balances - Ending	<u>\$ 115,428</u>	<u>\$ 591,147</u>

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

Justice Center Public Properties Corporation Fund	Total Non-Major Governmental Funds
\$	\$ 193,526
668,329	1,332,026
103	3,682
<u>668,432</u>	<u>1,529,234</u>
	358,304
	474,514
666,329	666,329
2,037	10,362
<u>668,366</u>	<u>1,509,509</u>
66	19,725
66	19,725
6,515	693,431
<u>\$ 6,581</u>	<u>\$ 713,156</u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND -
MODIFIED CASH BASIS

June 30, 2009

HARLAN COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND -
MODIFIED CASH BASIS

June 30, 2009

	Agency Funds			
	Flood Control Fund	Louellen Escrow Fund	Cloverfork Escrow Fund	Total
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 11,599	\$ 226,246	\$ 20,910	\$ 258,755
Total Assets	11,599	226,246	20,910	258,755
Liabilities				
Amounts Held In Custody For Others	11,599	226,246	20,910	258,755
Total Liabilities	11,599	226,246	20,910	258,755
Net Assets				
Total Net Assets	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HARLAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2009

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through Kentucky Department for Local Government:		
Community Development Block Grant -		
Cumberland Hope Community Project		
(CFDA #14.228)	05-018	\$ 474,514
<u>U.S. Department of Agriculture</u>		
Direct Program:		
Community Facilities Loans and Grants -		
Sheriff's Equipment		
(CFDA #10.766)	N/A	48,495
<u>U.S. Department of Transportation</u>		
Passed-Through Kentucky Transportation Cabinet:		
Airport Improvement Program -		
T-Hangar Project		
(CFDA #20.106)	AIP 3-21-0022-05-2006	21,847
Obstruction Removal		
(CFDA #20.106)	AIP 3-21-0022-06-2007	18,599
Airport Improvement		
(CFDA #20.106)	AIP 3-21-0022-07-2008	84,600
Airport Improvement		
(CFDA #20.106)	AIP 3-21-0022-08-2008	70,716
Total U.S. Department Of Transportation		<u>195,762</u>
Total Expenditures of Federal Awards		<u>\$ 718,771</u>

HARLAN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2009 or were deemed high risk. The Type A program was:

- CFDA #14.228 Community Development Block Grant – Cumberland Hope Community Project.

Note 3 – Subrecipient

The accompanying Schedule of Expenditures of Federal Awards includes federal awards Harlan County Fiscal Court passed through to the following subrecipient:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
Community Development Block Grant Cumberland Hope Community Project	14.228	Cumberland River Regional Mental Health - Mental Retardation Board, INC.	\$ 459,514

Note 4 – Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2009.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 18, 2011. We issued an adverse opinion on the aggregate discretely presented component opinion unit because the financial statements of the Harlan County Industrial Development Authority, a discretely presented component unit, were not included in the financial statements. Harlan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-01, 2009-06, 2009-08, 2009-10, 2009-12, 2009-14, and 2009-16 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-02, 2009-03, 2009-05, 2009-07, 2009-09, and 2009-15 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Harlan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2009-02, 2009-04, 2009-11, and 2009-13.

Management's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 18, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of Harlan County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2009. Harlan County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Harlan County's management. Our responsibility is to express an opinion on Harlan County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Harlan County's compliance with those requirements.

As described in item 2009-17 in the accompanying schedule of findings and questioned costs, Harlan County did not comply with requirements regarding subrecipient monitoring that are applicable to its Community Development Block Grant – Cumberland Hope Community Project. Compliance with such requirements is necessary, in our opinion, for Harlan County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Harlan County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2009.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Harlan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Harlan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-17 to be a material weakness.

The County Judge/Executive responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 18, 2011

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2009

**HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the remaining fund information of Harlan County, Kentucky and an adverse opinion on the aggregately discretely presented component units.
2. Six significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report. Seven material weaknesses are also reported.
3. Four instances of noncompliance were disclosed during the audit.
4. One material weakness relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Harlan County expresses a qualified opinion.
6. There is one audit finding relative to the major federal awards programs for Harlan County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant (CDBG) (CFDA# 14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Harlan County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2009-01 The County Has A Lack Of Adequate Segregation Of Duties

During our audit, we noted a lack of segregation of duties exists over all accounting functions. Adequate segregation of duties would prevent the same person from having a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. The Treasurer receives the mail, prepares and deposits the receipts, writes checks, and performs the bank reconciliations. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, inaccurate financial reporting, and errors increases. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy. The person completing this review should sign or initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should also cancel the purchase orders and invoices to ensure invoices are not paid twice.
- To have better internal controls, it is considered a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

We recommend the County implement these procedures. This will help segregate the duties of the County Treasurer as well as other employees.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-01 The County Has A Lack Of Adequate Segregation Of Duties (Continued)

County Judge Executive's Response: The County is in the process of implementing several internal controls to delegate some of these responsibilities.

2009-02 The County Should Require All Employees To Maintain Timesheets

During our test of payroll, we noted that the E-911 Director, the Dog Warden, the County Engineer, the Recycling Center/Solid Waste Coordinator, one County Judge Executive Office employee, two County Coroner employees, three County Attorney employees, and twenty-one Sheriff employees did not maintain timesheets. According to KRS 337.320, "every employer shall keep a record of the hours worked each day and each week by each employee." Timesheets provide documentation of hours worked to ensure eligibility for the County Employee Retirement System as well as to determine compliance with wage and labor laws. Every employer covered by the Fair Labor Standards Act must keep certain records for each covered, nonexempt worker. There is no required form for the records, but the records must include accurate information about the employee and timekeeping (when employee's workweek begins; hours worked each day and total hours worked each workweek; regular hourly/salary pay rate; total daily or weekly straight-time earnings; and total overtime earnings for the workweek).

Of the timesheets maintained, we noted instances where timesheets were not signed by the employee and/or supervisor. Good internal controls dictate that all timesheets have supervisory approval in order to strengthen controls over payroll and to properly account for all time worked for each employee.

We recommend the county require timesheets for all employees, ensure all timesheets have a supervisory signature, and implement procedures for maintaining and documenting leave balances.

County Judge Executive's Response: The County is now mandating every employee to have a timesheet, both hourly and salaried employees.

2009-03 The County Should Pay Overtime At A Rate Of Time And One Half

During our audit, we noted that the county has a policy that prohibits any salaried employee from being compensated overtime at a rate of time and one half and noted one salaried employee who worked overtime and was compensated at a rate of straight time. Overtime eligibility is not determined by whether an employee is salaried or hourly; rather by the employee's exempt or nonexempt status. The Fair Labor Standards Act (FLSA) requires that all covered, nonexempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. Overtime pay earned in a particular workweek must be paid on the regular payday for the pay period in which the wages were earned. Earnings may be determined on a salary basis, but in all such cases the overtime pay due must be computed on the basis of the average hourly rate derived from such earnings. This is calculated by dividing the total pay for employment in any workweek by the total number of hours actually worked. The overtime requirement may not be waived by agreement between the employer and employees. We recommend the County determine exempt or nonexempt status and comply with the Fair Labor Standards Act and state laws including payment of overtime at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek.

County Judge Executive's Response: The County pays overtime at a rate of time and one half to all hourly employees. We have updated our administrative code to exempt qualified salaried employees from overtime pay.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-03 The County Should Pay Overtime At A Rate Of Time And One Half

Auditor's Reply: Regardless of the County's Administrative Code, state and federal labor laws require both hourly and salaried employees who are not exempt to be paid overtime at time and one-half for each hour over 40 the employee works during a week. The Fair Labor Standards Act (FLSA) establishes strict requirements for the determination of whether an employee is exempt or nonexempt from overtime. The County must review each employee's job classification and duties and the requirements of the FLSA to determine if they are an exempt or nonexempt employee.

2009-04 The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within Thirty Working Days

During our audit, we found several expenditures tested were not paid within the statutory time frame of thirty (30) days. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend that the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

County Judge Executive's Response: The County attempts to pay bills within the 30 day period; however the fiscal court only meets once per month which makes it difficult to pay all bills within 30 days.

2009-05 The County Should Improve Purchase Order Procedures

Per the County Budget Preparation and State Local Finance Officer Policy Manual, the county should maintain a daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the P.O. number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim reviewed by fiscal court, date paid, and amount paid. In addition:

- Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
- Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

During our audit, we noted purchase orders were not issued for all expenditures; purchase orders did not have the proper authorization; the Judge/Executive does not maintain an appropriation ledger that is separate from the treasurer, and as a result does not reconcile monthly with the treasurer as required by Kentucky Revised Statutes and County Budget Preparation and State Local Finance Officer Policy Manual. We recommend the county improve purchase order procedures by complying with the Department of Local Government.

County Judge Executive's Response: The County has implemented a policy to improve purchase order procedures.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-06 The County Should Strengthen Internal Controls Over Waste Removal Collections

During our audit, we noted several internal control weaknesses such as inadequate segregation of duties, inaccurate or incomplete financial reports, the absence of monthly reporting, and the inability to obtain a list of delinquent customers from the county's seven water districts. We noted that the county entered into an agreement with the Green Hills Water District, Black Mountain Water District, Harlan Municipal Water District, Cawood Water District, City of Evarts Water District, City of Cumberland Water District, and the City of Benham Water District that stated the county would pay the districts commission for collecting all residential payments for waste removal. We were unable to confirm with surety that all receipts, less commissions, were being returned to fiscal court. We were also unable to obtain a list of delinquent customers. We recommend the county establish a uniform system of recordkeeping for the day-to-day operations of waste removal collections, require detailed monthly reporting of collections and delinquents, and seek additional training and technical assistance for the staff involved in these collections. We also recommend the county regularly forward a detailed list of delinquent customers to the County Attorney for immediate action.

County Judge Executive's Response: The County is taking great strides to improve internal controls along with collection procedures associated with waste removal collections.

2009-07 The County Should Perform Annual Physical Inventory, Reconcile To The Master Capital Asset Listing On Or Before June 30, And Implement Procedures For Disposal Of Equipment

The County Budget Preparation and State Local Finance Officer Policy Manual states, "An annual review of asset addition and disposal records, as well as depreciation calculation, should be reconciled to the Master Capital Asset Listing to verify accuracy. Resulting differences must be reconciled, explained, and documented. An annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented." Also, the deletion, sale or disposal of capital assets must be approved by authorized personnel and be documented accordingly. During our audit, we noted twenty-one (21) vehicles and equipment on the road department asset listing that were obsolete and no longer at the road department. No evidence was provided showing these items were properly disposed of. We recommend the county perform annual physical inventory of property and equipment, reconcile to the Master Capital Asset Listing, and implement procedures for documenting the surplus or disposal of all capital assets.

County Judge Executive's Response: The County is now performing annual inventories that will be given to the treasurer by June 30 as to allow the capital asset list to be correct. The County has also implemented procedures for disposal of all capital assets.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-08 The County Did Not Provide An Accurate Financial Statement Resulting In A Material Prior Period Adjustment

Beginning fund balance and cash balance of the General Fund were restated by \$539,557 because bond proceeds were assumed to be expended when in fact the cash balance remained. Beginning net assets of governmental activities were also restated in the amount of \$539,337 in cash balances as noted above and for omission of capital assets from prior year in the amount of \$432,760. Total restatement for governmental activities was \$972,318. The county was made aware of these errors by the auditors and made the appropriate adjustments. We recommend the county implement a process to closely monitor capital asset additions and deletions and to also make sure all cash balances are properly reported on the financial statements and quarterly reports to Department for Local Government.

County Judge Executive's Response: The prior period adjustment resulted from an oversight in a prior year audit.

2009-09 The Jailer Should Reconcile Receipts And Disbursements Monthly

KRS 68.210 sets forth the minimum requirements for the handling of public funds for all local government officials and employees. This requires bank reconciliations be performed at least monthly. Financial institution bank statements should be reconciled to the respective book balances to ensure bank funds are reflected accurately on the financial records of the Jailer. Auditors noted the bookkeeper was reconciling the bank balances to the ending cash balances monthly, but was not reconciling total receipts and disbursements ledgers. Although ending cash balances agreed, total receipts and total disbursements per the ledgers could not be reconciled to the bank statements. In order to comply with KRS 68.210 and ensure accurate financial statements, we recommend the Jailer reconcile receipts and disbursements ledgers to the receipts and disbursements per the bank statements monthly.

County Jailer's Response: We will reconcile receipts and disbursements monthly.

2009-10 The Jailer's Office Lacks Adequate Segregation Of Duties

The Jailer's office has a lack of adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as daily checkout procedures, daily deposit preparation, the preparation of checks for disbursements, and monthly bank reconciliations. Auditors also noted that all office employees have access to and are posting daily receipts to the ledgers, resulting in multiple posting errors. Good internal controls dictate that one person should not have a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. This is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities and/or prevents inaccurate financial reporting or misappropriation of assets. We recommend the Jailer separate the duties involving processing a transaction from beginning to end. If not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of this review.

County Jailer's Response: We are attempting to improve our segregation of duties by implementing more internal controls.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-11 The Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court

Pursuant to KRS 441.135(2), the Jailer is to prepare and submit an annual Canteen report to the fiscal court. It was noted that the Jailer does submit monthly reports to Fiscal Court but not a year-end report, which is required per KRS. A sample reporting format from the Kentucky Department of Corrections has been given to your staff and software provider. We recommend that the Jailer submit accurate and properly formatted annual canteen reports to the County Treasurer after fiscal year end.

County Jailer's Response: The jail submits 12 monthly reports and will work with our software company to provide the required annual statement.

2009-12 The Industrial Development Authority Should Submit An Annual Report To Fiscal Court And Provide Auditors With All Required Records

The Industrial Development Authority is a component unit of the Harlan County Fiscal Court. As such, the Fiscal Court should receive an annual report of the results of operation and its financial condition at year-end. Auditors noted the fiscal court was unable to obtain financial statements from the Harlan County Industrial Development Authority. In addition, while the county was able to obtain some records, auditors were unable to obtain all necessary records needed. We recommend the Harlan County Industrial Development Authority submit financial statements to the County Treasurer after fiscal year end and provide all records necessary for an annual audit.

IDA Chairman's Response: HCIDA will provide Harlan County fiscal court with document in the future. Never failed to provide to the fiscal court when they requested.

2009-13 Harlan County Industrial Development Authority Related Party Transaction Should Be Referred To The Appropriate Authorities

On June 24, 2005, the Harlan County Industrial Development Authority (IDA) entered into an agreement with Speciality Products Distributors, LLC for property/building located on Industrial Park Road in Harlan, KY. The owner and sole member of Speciality Products Distributors is the Chairman of the Harlan County IDA, who was appointed by the Harlan County Judge Executive. The agreement appears to be a land contract in the amount of \$325,000 at 0% interest, where the lessee (Speciality Products Distributors), will have the option to purchase the property at the end of the contract for \$1. The terms of the agreement for the first five years shall be \$1,300 per month. The lease payments for the second five years shall be \$1,400 per month. The third five year term shall be \$1,500 per month and at the end of the third term, the lease payments will remain at \$1,500 per month until the total sum of \$325,000 is paid in full. Lessee agrees to maintain sufficient liability insurance on said building and property.

Auditors noted the following:

- The agreement is being presented as a lease agreement; however appears to be a land contract.
- The agreement was signed by the lessors, Harlan County Judge Executive and Harlan County IDA Vice Chairman, and lessee, Speciality Products Distributors, Inc. who is also the Harlan County IDA Chairman.
- A related party transaction exists since the Chairman of the IDA is earning equity in property originally belonging to the IDA.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-13 Harlan County Industrial Development Authority Related Party Transaction Should Be Referred To The Appropriate Authorities (Continued)

- The Harlan County Judge Executive believes the property was purchased with coal severance funds. Coal severance restrictions should be investigated and abided by. If a multi-county coal severance fund was involved, all counties with interest in the property should be included in any agreements.
- A recent appraisal of the property by Kentucky Association of Counties valued it \$561,600.
- The property is on the tax roll for \$325,000 instead of its appraised value of \$561,600.
- Speciality Products Distributors has not paid any property taxes since the beginning of the agreement in 2005.
- Speciality Products Distributors does not insure the property per the agreement. The Harlan County Fiscal Court maintains insurance on the property at a rate of approximately \$1,337 per year.
- The property was not put on surplus nor offered for bids, disallowing the right of purchase to anyone else interested.
- Speciality Products Distributors has subleased the property/building to two businesses, earning a total of \$1,600 per month rental income.

We will be referring this issue to the Harlan County Attorney, Harlan County Ethics Board, and the Commonwealth Attorney.

IDA Chairman's Response: Harlan County IDA Chairman did not vote on this agreement or participate as chairman. Also, agreement was approved economic development cabinet/Dept of Local Government prior to being entered into by HCIDA. Speciality Distributors have been paying taxes into escrow pursuant to tax dispute. Said agreement was approved by Frankfort and Speciality Distributors does carry liability insurance on said property.

Auditor's Reply: No documentation was provided by the IDA Chairman confirming his maintenance of insurance on said property.

2009-14 The Tucker Guthrie Airport Board Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over all accounting functions. Adequate segregation of duties would prevent the same person from having a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. The Treasurer receives the mail, prepares and deposits the receipts, writes checks, and performs the bank reconciliations. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, inaccurate financial reporting, and errors increases.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, preparing checks, preparing reports and reconciling bank accounts. If these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the person responsible for these duties. All compensating controls should be documented by the person performing them.

Airport Board Chairman's Response: Agree.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-15 Invoices Of The Tucker Guthrie Airport Board Lack Evidence Of Proper Approval

During our audit, we noted that paid invoices tested for compliance showed no evidence of board approval or authorization to pay. We suggest all expenditures be properly initiated, authorized and approved prior to actual payment. Such approval for payment should be outside of the initiation, authorization and payment process.

Airport Board Chairman's Response: Agree.

2009-16 The Tucker Guthrie Airport Board Should Comply With The Uniform System Of Accounts

The Uniform System of Accounts as set out in Kentucky Revised Statutes 68.210 requires receipts and disbursements ledgers to be accurate and complete. During our audit we noted receipts and disbursements totaling \$61,391 and \$56,116 respectively were not posted to the ledgers. Adjustments were made to the ledgers to reflect the amounts not posted. Had these adjustments not been made, the financial statements of the Airport Board would have been materially misstated. We recommend the Airport Board comply with the requirements of the Uniform System of Accounts by preparing accurate and complete ledgers.

Airport Board Chairman's Response: Agree.

HARLAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2009
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2009-17 The Fiscal Court Did Not Monitor Subrecipient Resulting In Questioned Costs Of \$459,514

Department:	U.S. Department of Housing and Urban Development
Agency:	Kentucky Department for Local Government
Federal Program:	CFDA #14.228 – Community Development Block Grant – Cumberland Hope Community Project
Compliance Area:	Subrecipient Monitoring
Questioned Costs:	\$459,514

Harlan County Fiscal Court passed through \$459,514 of federal funds to a subrecipient, Cumberland River Regional Mental Health – Mental Retardation Board, INC (the subrecipient). OMB Circular A-133 requires Harlan County Fiscal Court monitor the subrecipient's use of Federal awards to provide assurance the Federal awards were administered in compliance with laws, regulations, and the provisions of grant agreements. Part of the monitoring process is ensuring subrecipients expending \$500,000 or more in Federal awards have met the audit requirements of OMB Circular A-133. Harlan County Fiscal Court passed through less than \$500,000, but the subrecipient expended more than \$500,000 in Federal awards. Review of the subrecipient's audit report indicates the Community Development Block Grant – Cumberland Hope Community Project was not included on the subrecipient's Schedule of Expenditures of Federal Awards. OMB Circular A-133 requires all federal expenditures be included on the Schedule of Expenditures of Federal Awards. Since this amount was not included, and the county did not catch the omission through subrecipient monitoring, the grant requirements were not met. This results in the \$459,514 that was passed through the county to be questioned costs. Harlan County Fiscal Court did not develop procedures to assure adequate monitoring of subrecipients, including the inclusion of the expenditure of the grant as part of the subrecipient's audit. The absence of control procedures for monitoring could result in subrecipient noncompliance. We recommend the fiscal court develop subrecipient monitoring procedures to assure compliance with provisions of OMB Circular A-133 for all federal funds passing through to other entities.

County Judge Executive's Response: The fiscal court will ensure proper monitoring of subrecipients in the future. This finding is a result of private auditors of the Cumberland Hope Center failing to recognize the expenditures as federal fund expenditures and therefore was left off of the subrecipient's Schedule of Federal Expenditures.

Auditor's Reply: It is management's responsibility to monitor subrecipients. As such when management sent money to the Hope Community Center, a letter should have accompanied the money, informing them it was a federal pass through and they were a subrecipient.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

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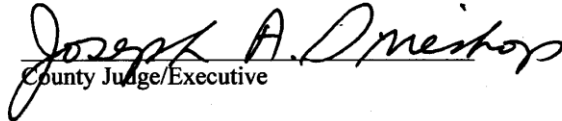
**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**


HARLAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
HARLAN COUNTY FISCAL COURT
For The Fiscal Year Ended June 30, 2009

The Harlan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program were expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.


County Judge/Executive


County Treasurer

